

CITY OF MUKILTEO
Snohomish County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. City Officials Should File Annual Financial Reports In A Timely Manner

The State Auditor's report for fiscal year 1991 cited the City of Mukilteo for untimely filing of their annual report. The city's fiscal year end is December 31, making the report due by May 31. Although the city has improved on timely filing, the 1992 report was not submitted to the State Auditor's Office until June 24, 1993.

RCW 43.09.230 states in part:

. . . The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year . . . Such reports shall be prepared, certified, and filed . . . within one hundred fifty days after the close of each fiscal year.

Untimely submission of the annual report causes inadequate disclosure of the city's financial operations to the public, regulatory agencies, and other interested parties. Failure to provide timely reporting also hinders the State Auditor's Office in meeting its reporting obligations to the state legislature.

City personnel stated that conversion from cash basis to accrual basis reporting and the lack of adequate staffing contributed to late reporting.

We again recommend that city officials comply with state financial reporting requirements.

2. The City Should Prepare An Accurate Annual Report

Our audit of the city's annual report for fiscal year 1992 disclosed the following errors and omissions:

- a. No general fixed asset account group is presented.
- b. Fixed assets and related depreciation are not presented for the proprietary funds.
- c. Proprietary fund long-term debt is accounted for in the debt service fund group and the general long-term debt account group.
- d. The general long-term debt account group did not include assessment or revenue debt. This omission has been corrected.
- e. Beginning fund balances were not restated to adjust for accruals attributable to the prior period. Adjustment to the beginning fund balances was necessary to convert from a cash to an accrual basis method of accounting and reporting.
- f. Revenues and expenditures attributable to the prior reporting period were recorded in the current year activity on the Statement of Revenues, Expenditures and Changes in Fund Balance.
- g. The Statement of Revenues, Expenditures and Changes in Fund Balance for both the governmental and the proprietary funds included nonrevenues which distorted the ending balances. This caused ending fund balances between the Combined Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balance to disagree. This error has been corrected.
- h. Numerous material accruals were either omitted or were accrued in error. These errors and omissions have been corrected.
- i. Schedules of Cash and Investment Activity could not be reconciled to the financial statements and the general ledger.
- j. Cash and investments did not reconcile to outside confirmations from banking institutions. This error has been corrected.
- k. The Schedule of Financial Assistance was prepared on a cash basis. It also contained several errors and could not be supported by city records.
- l. The accompanying Notes to the Financial Statements were not prepared in accordance with the state *Budgeting, Accounting and Reporting System* (BARS) manual for Category I cities. These errors have been substantially corrected.

Under the authority of RCW 43.09.200, the Office of State Auditor has promulgated the BARS manual as a uniform system of accounting for cities which require that accounts be exhibited in a true and accurate manner.

Population growth has elevated the city to Category I status as required by the BARS manual. Accounting and reporting in accordance with generally accepted accounting principles (GAAP) is prescribed for all Category I cities.

It appears that city administrators did not have the resources available to comply with the reporting requirements of a Category I city.

Inaccurate preparation of financial statements and schedules results in inadequate disclosure of the city's financial activities to the city council and the public and increases audit costs. We believe that the public's confidence in government requires accountability and timely disclosure of relevant and accurate financial information.

We recommend that city personnel establish procedures to ensure that future annual reports and schedules are prepared accurately, completely, and in accordance with the BARS manual requirements.

3. The City Should Establish And Implement Internal Accounting Controls Over Cash Receipts

The following internal control weaknesses were noted during our audit.

- a. Receipts were not prepared for each transaction.
- b. Receipts were not always completed as to mode of payment and preparer.
- c. Due to issuing procedures, sequential tracking of receipts could not be performed.
- d. Opening and closing cash counts and reconciliations were not documented.
- e. Mail was opened by only one person and in an untimely manner.
- f. Payments received by mail were not documented.
- g. Cash receipts were not deposited in a timely manner.
- h. Lack of segregation of duties existed between receipting, depositing, reconciling, and posting to the general ledger and subsidiary systems.
- i. Receipts were not coded to the correct revenue codes for fines, interest, and principal payments.
- j. Undeposited receipts and city check books were not retained in a place of safekeeping with limited access.

City officials have not established policies and procedures over cash receipts. This decreases accountability over the cash receipting system. In addition, it could allow error and/or irregularities to occur without being detected in a timely manner.

We recommend that city officials establish and implement internal accounting and administrative controls over cash receipts.